

Perdana Petroleum (PETR MK)

Share Price: MYR1.31

MCap (USD): 289M

Malaysia

Target Price: MYR2.40 (+83%)

ADTV (USD): 1M

Oil & Gas

BUY

(Unchanged)

Results on track; pursuing growth

- 9M14 earnings in line; 77% of ours/consensus 12M forecasts.
- Majority of contracts are long term. OSVs are new (4 years average) and utilisation level is the highest among peers.
- BUY with an unchanged MYR2.40 TP (12x 2016 PER).

What's New

3Q14 core net profit of MYR27m (+13% QoQ; +74% YoY) took 9M14 core earnings to MYR73m (+84% YoY). The QoQ growth was fuelled by higher utilisation of its OSV fleet (+1-ppt to 94%) and lower maintenance costs. Its 5k AHTS *Ranger* was off-hire for ~30 days in 3Q14 for scheduled dry-docking works (2Q14: 11k AHTS *Voyager*).

Declared an interim DPS of 2 sen; to go ex- on 12 Dec 2014.

What's Our View

Our forecasts are unchanged. We expect a sequentially weaker 4Q (-19% in net profit) following the sale of *Superior* (a 300pax accommodation workbarge (AWB) for USD28.5m to Houston Limited, concluded in Nov 2014) and higher opex as Perdana takes delivery of its newbuild, *Emerald*, a 300pax AWB in Oct 2014 (not contracted in 4Q14).

We expect a stronger FY15 (+16% YoY), as Perdana charters out *Emerald* from 1Q15. Demand/utilisation is almost assured. *Emerald* is targeted either for Shell EOR/Dayang's HUC works in Malaysia. Despite recent volatility/weakness in oil price, DCRs are expected to be strong for AWBs, which can still command USD25k-USD28k (USD20k-21k 2 years ago).

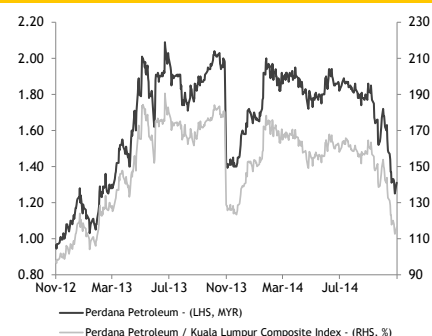
Risk-rewards ratio has turned favourable following the recent weakness in its share price. Perdana offers resilient earnings visibility. 81% of its OSV contracts are on long term charters, operating in the stable 'production phase' segment of the O&G value chain. Elsewhere, Perdana is likely to turn non-Shariah compliant in the upcoming 28 Nov review.

FYE Dec (MYR m)	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue	259.5	274.6	355.2	356.6	411.1
EBITDA	33.1	114.6	158.7	169.3	212.1
Core net profit	(7.1)	61.7	95.2	110.6	146.1
Core EPS (sen)	(1.0)	8.5	13.1	15.2	20.1
Core EPS growth (%)	nm	nm	54.5	16.1	32.0
Net DPS (sen)	0.0	0.0	2.0	0.0	0.0
Core P/E (x)	(133.3)	15.4	10.0	8.6	6.5
P/BV (x)	2.1	1.7	1.4	1.3	1.1
Net dividend yield (%)	0.0	0.0	1.5	0.0	0.0
ROAE (%)	nm	12.1	15.6	15.6	17.6
ROAA (%)	nm	6.4	7.4	7.8	9.2
EV/EBITDA (x)	30.1	14.5	9.7	8.7	7.0
Net debt/equity (%)	45.7	91.2	90.4	68.0	58.8

Key Data

Shariah status	Yes
52w high/low (MYR)	2.00/1.25
3m avg turnover (USDm)	1.1
Free float (%)	61.5
Issued shares (m)	738
Market capitalization	MYR967.3M
Major shareholders:	
-Dayang Enterprise Holdings Bhd.	25.5%
-Lembaga Tabung Haji	8.6%
-KHO POH ENG	5.1%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute (%)	(21.6)	(27.6)	(7.8)
Relative to index (%)	(22.2)	(26.5)	(9.6)

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	6	0	0
	Maybank Consensus		% +/-
Target Price (MYR)	2.40	2.22	8.4
'14 PATMI (MYRm)	95	98	(2.4)
'15 PATMI (MYRm)	111	108	2.4

Source: FactSet; Maybank

Liaw Thong Jung
(603) 2297 8688
tjliaw@maybank-ib.com

Ivan Yap
(603) 2297 8612
ivan.yap@maybank-ib.com

Summary results table

FY Dec (MYR'm)	Quarterly results					Cumulative results		
	3Q14	3Q13	% YoY	2Q14	% QoQ	9M14	9M13	% YoY
Turnover	93.8	68.2	37.6	88.6	5.9	269.7	196.6	37.2
EBITDA	55.3	20.8	166.4	28.8	92.0	131.3	58.2	125.6
Int. expense	(7.1)	(4.2)	66.5	(7.2)	(2.1)	(23.2)	(10.6)	118.7
Int. income	1.0	6.5	(84.8)	1.6	(38.5)	4.8	16.7	(70.9)
EI	(0.1)	(0.1)	(31.6)	(0.1)	12.1	(0.3)	(0.1)	NM
Pretax profit	27.7	15.8	75.6	24.1	14.8	74.2	44.3	67.7
Tax	(0.7)	0.1	NM	(0.1)	453.9	(1.2)	(3.6)	(66.9)
Minority interest	0.0	(0.4)	NM	0.0	NM	0.0	(0.9)	NM
Net profit	27.0	15.5	74.1	24.0	12.5	73.0	39.8	83.6
Recurring net profit	27.1	15.6	73.5	24.1	12.5	73.4	39.8	84.2
	3Q14	3Q13	+/-ppt	2Q14	+/-ppt	9M14	9M13	+/-ppt
EBITDA margin (%)	59.0	30.5	28.5	32.5	26.4	48.7	29.6	19.1
PBT margin (%)	29.5	23.2	6.4	27.3	2.3	27.5	(18.2)	45.7
Tax rate (%)	2.6	(0.5)	3.1	0.5	2.0	1.6	8.1	(6.5)

Sources: Company, Maybank KE

Fleet expansion/rejuvenation

Fleet expansion/rejuvenation will continue. Perdana has committed to take delivery of 2 units of 500pax AWBs in 1Q16/2Q16. It has the option to buy another 2 units of similar sized AWBs with 2H16 delivery dates.

Perdana's fleet profile

Vessel name	Type; DP	Year built	Client	On sales & leaseback	Contract Tenure/ (extension)
Petra Frontier	5,220bhp AHTS; DP1	2008	Spot	No	Spot
Petra Ranger	5,220bhp AHTS; DP1	2009	Spot	No	Spot
Petra Adventurer	10,800bhp AHTS; DP2	2008	PCSB	Yes	Jan 13 - Dec 17/(18)
Petra Traveller	10,800bhp AHTS; DP2	2008	PCSB	Yes	Jan 13 - Dec 17/(18)
Petra Horizon	10,880bhp AHTS; DP2	2008	Talisman	No	Dec 13 - Dec 14/(15)
Petra Voyager	10,880bhp AHTS; DP2	2009	PCSB	Yes	Jan 13 - Dec 17/(18)
Petra Expedition	10,800bhp AHTS; DP2	2009	PCSB	Yes	Jan 13 - Dec 17/(18)
Petra Marathon	12,240bhp AHTS; DP2	2010	Murphy	No	Jul 12 - Jun 15
Petra Enterprise	241 pax AWB	2001	Ocean Pro Off - PCSB	No	Mar 14 - Feb 16/(17)
Petra Odyssey	300 pax AWB	2011	Dayang/ Shell	No	Aug 13 - Jul 18/(19)
Perdana Excelsior	300 pax AWB	2013	Dayang/ Shell	No	Aug 13 - Jul 18/(19)
Perdana Endurance	300 pax AWB	2013	Dayang/ Shell	No	Aug 13 - Jul 18/(19)
Perdana Protector	300 pax AWB	2013	Dayang/ Shell	No	Jul 19
Perdana Resolute	300 pax AWB	2013	Dayang/ Shell	No	Jul 19
Petra Liberty	169 pax workboat	2009	Alam	No	Oct13/Sep 14
Petra Sovereign	169 pax workboat	2010	Dayang/ Shell	No	Aug 13 - Jul 18/(19)

Sources: Company, Maybank KE

Perdana's OSVs under construction

Vessel name	Type	Year built
Perdana Emerald	300 pax AWB	4Q14
SK 317	500 pax AWB	1Q16
SK 318	500 pax AWB	2Q16
SK 319 (option)	500 pax AWB	3Q16
SK 320 (option)	500 pax AWB	4Q16

Sources: Company, Maybank KE

Non-Shariah compliant?

More than 33% of Perdana's existing debt of MYR578m (as at end-3Q14) is non-Islamic and its future debt will take the form of offshore financing which would be non-Islamic conventional loans.

Perdana has been consistent in stressing that it will strive for earnings growth and raising shareholders value to compensate for not being a Shariah compliant stock, which we concur as a fair decision. Converting some of its loans to Islamic debt would likely result in higher interest expense considering that the current funding cost of Islamic debt (6%-7%) is higher than offshore financing's 3%-4%.

As Perdana is likely to be excluded from the Shariah compliant list come the Securities Commission's next review on 28 Nov 2014, Lembaga Tabung Haji's (LTH) 8.6% stake in Perdana is now a key focus. Perdana's non-Shariah compliant status could see the exit of LTH as a shareholder.

Share overhang or strategic block for a GO?

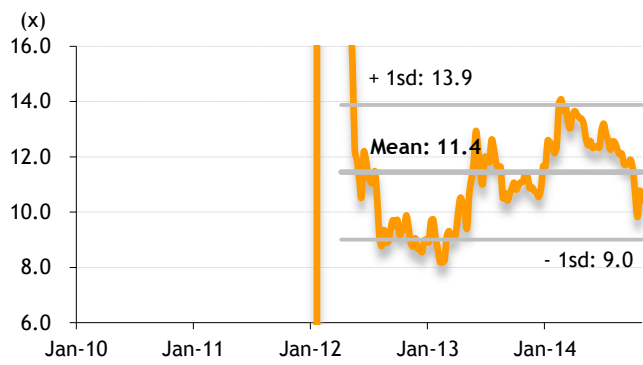
We see two likely scenarios for LTH's strategic stake:

- (i) The sale of LTH's entire 8.6% in Perdana to Dayang Enterprise (DEHB MK; Not Rated; Perdana's largest shareholder), which would raise the latter's stake to 33.4% (GO threshold: 33%) and trigger a Mandatory General Offer (MGO).
- (ii) The sale of a partial stake to Dayang (i.e. below 8%). This would see Dayang emerging as a bigger shareholder at Perdana but avoids a GO exercise.

We reckon scenario (ii) will be the more likely outcome. While acquiring Perdana will likely be earnings accretive to Dayang (assuming LTH agrees to Dayang's proposed offer price), we see no reason for Dayang to completely acquire Perdana.

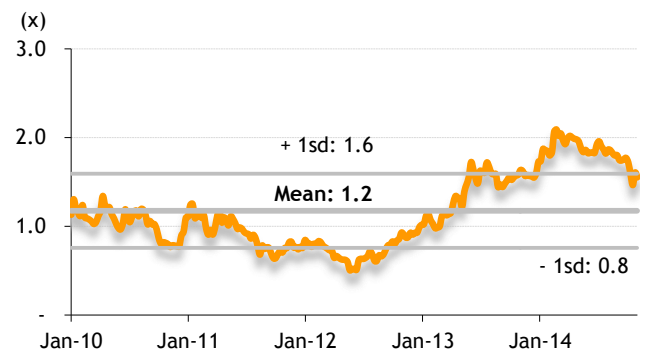
Perdana is acknowledged to be among the best in fleet management in the industry, testament to its fleet utilisation level, which is the highest in the industry. Perdana's management collectively holds a 10% stake in Perdana and having management's experience and skillsets to continue managing Perdana's fleet is crucial.

Perdana: 12M forward PER



Source: Bloomberg, Maybank KE

Perdana: 12M forward P/BV



Source: Bloomberg, Maybank KE

FYE 31 Dec	FY12A	FY13A	FY14E	FY15E	FY16E
Key Metrics					
P/E (reported) (x)	(259.2)	15.4	10.0	8.6	6.5
Core P/E (x)	(133.3)	15.4	10.0	8.6	6.5
P/BV (x)	2.1	1.7	1.4	1.3	1.1
P/NTA (x)	na	na	na	na	na
Net dividend yield (%)	0.0	0.0	1.5	0.0	0.0
FCF yield (%)	nm	nm	nm	9.5	nm
EV/EBITDA (x)	30.1	14.5	9.7	8.7	7.0
EV/EBIT (x)	nm	19.8	12.0	10.5	8.1

INCOME STATEMENT (MYR m)

Revenue	259.5	274.6	355.2	356.6	411.1
Gross profit	61.6	92.1	175.2	177.8	210.7
EBITDA	33.1	114.6	158.7	169.3	212.1
Depreciation	25.3	30.6	29.5	29.5	29.5
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	7.8	84.0	129.2	139.8	182.6
Net interest income / (exp)	(17.9)	(18.6)	(30.2)	(25.4)	(31.5)
Associates & JV	4.4	0.0	0.0	0.0	0.0
Exceptionals	3.5	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	(2.3)	65.4	99.0	114.4	151.0
Income tax	(1.2)	(3.4)	(3.8)	(3.8)	(5.0)
Minorities	(0.2)	(0.3)	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(3.7)	61.7	95.2	110.6	146.1
Core net profit	(7.1)	61.7	95.2	110.6	146.1

BALANCE SHEET (MYR m)

Cash & Short Term Investments	40.8	61.0	76.3	120.5	257.0
Accounts receivable	63.5	31.8	39.5	39.6	45.7
Inventory	3.8	1.3	5.1	5.1	5.9
Property, Plant & Equip (net)	474.3	961.6	1,079.9	1,100.4	1,259.1
Intangible assets	27.5	27.5	27.5	27.5	27.5
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	147.9	99.1	149.4	149.4	149.4
Total assets	757.9	1,182.3	1,377.6	1,442.5	1,744.5
ST interest bearing debt	84.8	114.1	35.8	35.8	35.8
Accounts payable	23.3	14.1	17.8	17.8	20.6
LT interest bearing debt	165.9	459.8	634.5	599.5	752.7
Other liabilities	25.0	32.0	32.0	32.0	32.0
Total Liabilities	298.9	620.4	720.4	685.5	841.4
Shareholders Equity	459.2	562.2	657.4	757.3	903.3
Minority Interest	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Total shareholder equity	459.0	561.9	657.2	757.0	903.1
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	757.9	1,182.3	1,377.6	1,442.5	1,744.5

CASH FLOW (MYR m)

Pretax profit	(2.3)	65.4	99.0	114.4	151.0
Depreciation & amortisation	(25.3)	(30.6)	(29.5)	(29.5)	(29.5)
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(24.0)	33.1	(7.8)	(0.1)	(4.1)
Cash taxes paid	(1.2)	(3.4)	(3.8)	(3.8)	(5.0)
Other operating cash flow	20.7	(31.2)	(50.3)	0.0	0.0
Cash flow from operations	18.6	94.5	66.7	140.0	171.4
Capex	(114.5)	(480.6)	(147.8)	(50.0)	(188.2)
Free cash flow	(95.9)	(386.1)	(81.2)	90.0	(16.7)
Dividends paid	0.0	0.0	0.0	(10.7)	0.0
Equity raised / (purchased)	33.8	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	(23.7)	323.2	96.4	(35.0)	153.2
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	59.7	83.1	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(26.2)	20.2	15.2	44.3	136.4

FYE 31 Dec	FY12A	FY13A	FY14E	FY15E	FY16E
Key Ratios					
Growth ratios (%)					
Revenue growth	1.4	5.8	29.3	0.4	15.3
EBITDA growth	125.2	246.9	38.4	6.7	25.3
EBIT growth	nm	980.6	53.8	8.2	30.6
Pretax growth	nm	nm	51.4	15.5	32.0
Reported net profit growth	nm	nm	54.5	16.1	32.0
Core net profit growth	nm	nm	54.5	16.1	32.0
Profitability ratios (%)					
EBITDA margin	12.7	41.7	44.7	47.5	51.6
EBIT margin	3.0	30.6	36.4	39.2	44.4
Pretax profit margin	nm	23.8	27.9	32.1	36.7
Payout ratio	0.0	0.0	15.2	0.0	0.0
DuPont analysis					
Net profit margin (%)	nm	22.5	26.8	31.0	35.5
Revenue/Assets (x)	0.3	0.2	0.3	0.2	0.2
Assets/Equity (x)	1.7	2.1	2.1	1.9	1.9
ROAE (%)	nm	12.1	15.6	15.6	17.6
ROAA (%)	nm	6.4	7.4	7.8	9.2
Liquidity & Efficiency					
Cash conversion cycle	39.0	30.7	10.6	14.3	12.7
Days receivable outstanding	83.4	62.4	36.1	39.9	37.3
Days inventory outstanding	7.1	5.1	6.4	10.2	9.9
Days payables outstanding	51.5	36.8	31.8	35.8	34.5
Dividend cover (x)	nm	nm	6.6	nm	nm
Current ratio (x)	1.1	0.9	1.8	2.4	4.0
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	1.9	1.9	2.1	2.1
Net debt/equity (%)	45.7	91.2	90.4	68.0	58.8
Net interest cover (x)	0.4	4.5	4.3	5.5	5.8
Debt/EBITDA (x)	7.6	5.0	4.2	3.8	3.7
Capex/revenue (%)	44.1	175.0	41.6	14.0	45.8
Net debt/ (net cash)	209.9	512.9	594.1	514.8	531.5

Source: Company; Maybank

Research Offices

REGIONAL

WONG Chew Hann, CA
Regional Head of Institutional Research
(603) 2297 8686 wchewh@maybank-ib.com

ONG Seng Yeow
Regional Head of Retail Research
(65) 6432 1453
ongsengyeow@maybank-ke.com.sg

Alexander GARTHOFF
Institutional Product Manager
(852) 2268 0638
alexgarthoff@kimeng.com.hk

ECONOMICS

Suhaimi ILIAS
Chief Economist
Singapore | Malaysia
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

Luz LORENZO
Philippines
(63) 2 849 8836
luz_lorenzo@maybank-atrke.com

Tim LEELAHAPHAN
Thailand
(662) 658 1420 tim.l@maybank-ke.co.th

JUNIMAN
Chief Economist, BI
Indonesia
(62) 21 29228888 ext 29682
Juniman@bankbii.com

MALAYSIA

WONG Chew Hann, CA Head of Research
(603) 2297 8686 wchewh@maybank-ib.com
• Strategy • Construction & Infrastructure

Desmond CH'NG, ACA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

LIAW Thong Jung
(603) 2297 8688 tjliaw@maybank-ib.com
• Oil & Gas - Regional • Shipping

ONG Chee Ting, CA
(603) 2297 8678 ct.ong@maybank-ib.com
• Plantations - Regional

Mohshin AZIZ
(603) 2297 8692 mohshin.aziz@maybank-ib.com
• Aviation - Regional • Petrochem

YIN Shao Yang, CPA
(603) 2297 8916 samuel.y@maybank-ib.com
• Gaming - Regional • Media

TAN Chi Wei, CFA
(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679 weisum@maybank-ib.com
• Property & REITs

LEE Yen Ling
(603) 2297 8691 lee.yl@maybank-ib.com
• Building Materials • Glove Producers

CHAI Li Shin, CFA
(603) 2297 8684 lishin.c@maybank-ib.com
• Plantation • Construction & Infrastructure

Ivan YAP
(603) 2297 8612 ivan.yap@maybank-ib.com
• Automotive

LEE Cheng Hooi Regional Chartist
(603) 2297 8694
chenghooi.lee@maybank-ib.com

Tee Sze Chiah Head of Retail Research
(603) 2297 6858 szechiah.t@maybank-ib.com

HONG KONG / CHINA

Howard WONG Head of Research
(852) 2268 0648
howardwong@kimeng.com.hk
• Oil & Gas - Regional

Alexander LATZER
(852) 2268 0647
alexanderlatzer@kimeng.com.hk
• Metals & Mining - Regional

Jacqueline KO, CFA
(852) 2268 0633 jacquelineko@kimeng.com.hk
• Consumer Staples & Durables

Ka Leong LO, CFA
(852) 2268 0630 klllo@kimeng.com.hk
* Consumer Discretionary & Auto

Karen KWAN
(852) 2268 0640 karenkwon@kimeng.com.hk
• Property & REITs

Osbert TANG, CFA
(86) 21 5096 8370
osberttang@kimeng.com.hk
• Transport & Industrials

Ricky WK NG, CFA
(852) 2268 0689 rickyng@kimeng.com.hk
• Utilities & Renewable Energy

Steven ST CHAN
(852) 2268 0645 stevenchan@kimeng.com.hk
• Banking & Financials - Regional

Warren LAU
(852) 2268 0644
warrenlau@kimeng.com.hk
• Technology - Regional

INDIA

Jigar SHAH Head of Research
(91) 22 6632 2632
jigar@maybank-ke.co.in
• Oil & Gas • Automobile • Cement

Anubhav GUPTA
(91) 22 6623 2605
anubhav@maybank-ke.co.in
• Metal & Mining • Capital Goods • Property

Urmil SHAH
(91) 22 6623 2606 urmil@maybank-ke.co.in
• Technology • Media

Vishal MODI
(91) 22 6623 2607 vishal@maybank-ke.co.in
• Banking & Financials

SINGAPORE

NG Wee Siang Head of Research
(65) 6231 5838 ngweesiang@maybank-ke.com.sg
• Banking & Finance

Gregory YAP
(65) 6231 5848 gyap@maybank-ke.com.sg
• SMID Caps - Regional
• Technology & Manufacturing • Telcos

YEAK Chee Keong, CFA
(65) 6231 5842
yeakcheekeong@maybank-ke.com.sg
• Offshore & Marine

Derrick HENG
(65) 6231 5843 derrickheng@maybank-ke.com.sg
• Transport (Land, Shipping & Aviation)

WEI Bin
(65) 6231 5844 weibin@maybank-ke.com.sg
• Commodity • Logistics • S-chips

John CHEONG
(65) 6231 5845 johncheong@maybank-ke.com.sg
• Small & Mid Caps • Healthcare

TRUONG Thanh Hang
(65) 6231 5847 hang.truong@maybank-ke.com.sg
• Small & Mid Caps

INDONESIA

Wilianto IE Head of Research
(62) 21 2557 1125
wilianto.ie@maybank-ke.co.id
• Strategy

Rahmi MARINA
(62) 21 2557 1128
rahmi.marina@maybank-ke.co.id
• Banking & Finance

Aurellia SETIABUDI
(62) 21 2953 0785
aurellia.setiabudi@maybank-ke.co.id
• Property

Isnaputra ISKANDAR
(62) 21 2557 1129
isnaputra.iskandar@maybank-ke.co.id
• Metals & Mining • Cement

Pandu ANUGRAH
(62) 21 2557 1137
pandu.anugrah@maybank-ke.co.id
• Infrastructure • Construction • Transport

Janni ASMAN
(62) 21 2953 0784
janni.asman@maybank-ke.co.id
• Cigarette • Healthcare • Retail

PHILIPPINES

Luz LORENZO Head of Research
(63) 2 849 8836
luz_lorenzo@maybank-atrke.com
• Strategy
• Utilities • Conglomerates • Telcos

Lovell SARREAL
(63) 2 849 8841
lovell_sarreal@maybank-atrke.com
• Consumer • Media • Cement

Rommel RODRIGO
(63) 2 849 8839
rommel_rodrigo@maybank-atrke.com
• Conglomerates • Property • Gaming
• Ports/ Logistics

Katherine TAN
(63) 2 849 8843
kat_tan@maybank-atrke.com
• Banks • Construction

Ramon ADVIENTO
(63) 2 849 8845
ramon_adviento@maybank-atrke.com
• Mining

THAILAND

Maria LAPIZ Head of Institutional Research
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399
Maria.L@maybank-ke.co.th
• Consumer / Materials

Jesada TECHAHUSDIN, CFA
(66) 2658 6300 ext 1394
Jesada.T@maybank-ke.co.th
• Financial Services

Kittisorn PRUITIPAT, CFA, FRM
(66) 2658 6300 ext 1395
Kittisorn.P@maybank-ke.co.th
• Real Estate

Sittichai DUANGRATTANACHAYA
(66) 2658 6300 ext 1393
Sittichai.D@maybank-ke.co.th
• Services Sector

Sukit UDOMSIRIKUL Head of Retail Research
(66) 2658 6300 ext 5090
Sukit.u@maybank-ke.co.th

Mayuree CHOWVIKIAN
(66) 2658 6300 ext 1440
mayuree.c@maybank-ke.co.th
• Strategy

Padon VANNARAT
(66) 2658 6300 ext 1450
Padon.v@maybank-ke.co.th
• Strategy

Surachai PRAMUALCHARONKIT
(66) 2658 6300 ext 1470
Surachai.p@maybank-ke.co.th
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 6300 ext 1430
suttatip.p@maybank-ke.co.th
• Media • Commerce

Sutthichai KUMWORACHAI
(66) 2658 6300 ext 1400
sutthichai.k@maybank-ke.co.th
• Energy • Petrochem

Temporn TANTIVIVAT
(66) 2658 6300 ext 1520
temporn.t@maybank-ke.co.th
• Property

Jaroonpan WATTANAWONG
(66) 2658 6300 ext 1404
jaroonpan.w@maybank-ke.co.th
• Transportation • Small cap

Chatchai JINDARAT
(66) 2658 6300 ext 1401
chatchai.j@maybank-ke.co.th
• Electronics

VIETNAM

LE Hong Lien, ACCA
Head of Institutional Research
(84) 8 44 555 888 x 8181
lien.le@maybank-kimeng.com.vn
• Strategy • Consumer • Diversified • Utilities

THAI Quang Trung, CFA, Deputy Manager,
Institutional Research
(84) 8 44 555 888 x 8180
thai.truong@maybank-kimeng.com.vn
• Real Estate • Construction • Materials

Le Nguyen Nhat Chuyen
(84) 8 44 555 888 x 8082
chuyen.le@maybank-kimeng.com.vn
• Oil & Gas

NGUYEN Thi Ngan Tuyen, Head of Retail Research
(84) 8 44 555 888 x 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Food & Beverage • Oil&Gas • Banking

TRINH Thi Ngoc Diep
(84) 4 44 555 888 x 8208
diep.trinh@maybank-kimeng.com.vn
• Technology • Utilities • Construction

TRUONG Quang Binh
(84) 4 44 555 888 x 8087
binh.truong@maybank-kimeng.com.vn
• Rubber plantation • Tyres and Tubes • Oil&Gas

PHAM Nhat Bich
(84) 8 44 555 888 x 8083
bich.pham@maybank-kimeng.com.vn
• Consumer • Manufacturing • Fishery

NGUYEN Thi Sony Tra Mi
(84) 8 44 555 888 x 8084
mi.nguyen@maybank-kimeng.com.vn
• Port operation • Pharmaceutical
• Food & Beverage

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Malaysia

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

Philippines

Maybank ATR Kim Eng Securities Inc.
17/F, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 849 8888
Fax: (63) 2 848 5738

South Asia Sales Trading

Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank-ke.com.sg
Tel: (65) 6336-5157
US Toll Free: 1-866-406-7447

Malaysia

Rommel Jacob
rommeljacob@maybank-ib.com
Tel: (603) 2717 5152

Indonesia

Harianto Liong
harianto.liong@maybank-ke.co.id
Tel: (62) 21 2557 1177

New York

Andrew Dacey
adacey@maybank-keusa.com
Tel: (212) 688 2956

Vietnam

Tien Nguyen
thuytien.nguyen@maybank-kimeng.com.vn
Tel: (84) 44 555 888 x8079

Singapore

Maybank Kim Eng Securities Pte Ltd
Maybank Kim Eng Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

Hong Kong

Kim Eng Securities (HK) Ltd
Level 30,
Three Pacific Place,
1 Queen's Road East,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104

Thailand

Maybank Kim Eng Securities
(Thailand) Public Company Limited
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)

North Asia Sales Trading

Alex Tsun
alextsun@kimeng.com.hk
Tel: (852) 2268 0228
US Toll Free: 1 877 837 7635

Thailand

Tanasak Krishnasreni
Tanasak.K@maybank-ke.co.th
Tel: (66)2 658 6820

London

Simon Lovekin
simonl@maybank-ke.co.uk
Tel: (44)-207-626-2828

India

Manish Modi
manish@maybank-ke.co.in
Tel: (91)-22-6623-2601

Philippines

Keith Roy
keith_roy@maybank-atrke.com
Tel: (63) 2 848-5288

London

Maybank Kim Eng Securities
(London) Ltd
5th Floor, Aldermay House
10-15 Queen Street
London EC4N 1TX, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302

Indonesia

PT Maybank Kim Eng Securities
Plaza Bapindo
Citibank Tower 17th Floor
Jl Jend. Sudirman Kav. 54-55
Jakarta 12190, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189

Vietnam

Maybank Kim Eng Securities Limited
4A-15+16 Floor Vincom Center Dong
Khoi, 72 Le Thanh Ton St. District 1
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888
Fax : (84) 8 38 271 030

New York

Maybank Kim Eng Securities USA
Inc
777 Third Avenue, 21st Floor
New York, NY 10017, U.S.A.

Tel: (212) 688 8886
Fax: (212) 688 3500

India

Kim Eng Securities India Pvt Ltd
2nd Floor, The International 16,
Maharishi Karve Road,
Churchgate Station,
Mumbai City - 400 020, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604

Saudi Arabia

In association with
Anfaal Capital
Villa 47, Tujjar Jeddah
Prince Mohammed bin Abdulaziz
Street P.O. Box 126575
Jeddah 21352

Tel: (966) 2 6068686
Fax: (966) 26068787